

UNITED STATES DEPARTMENT OF AGRICULTURE
Rural Electrification Administration
Washington 25, D. C.

August 3, 1951

TELEPHONE ENGINEERING MEMORANDUM 508

SUBJECT: Payments Due Contractors, Borrower's Engineers and Suppliers

All contracts executed by borrowers and approved by REA contain specific provisions as to amounts payable and the time to be paid. It is only reasonable that those to whom payments are due should expect and receive prompt payment. When there is delay, the payee must arrange for funds from other sources which increases his expense of doing business, and this may result in higher costs to borrowers in subsequent contracts.

Normally, an advance of funds can be made within one week after receipt by REA of the borrower's requisition for funds. We strongly urge that every system manager familiarize himself with all provisions of any contract and the following procedure for obtaining funds so that payments can be made when due. However, funds in excess of actual current requirements should not be requisitioned.

Payments to Materials Suppliers

After the approval by REA of materials contracts, borrowers should submit requisitions to cover the full cost of materials in sufficient time to make payment for such materials immediately upon their delivery. This will result in the savings effected through cash discounts and the improvement of credit ratings. In no event shall payments be delayed more than 30 days after delivery of materials except for causes beyond the control of the borrower.

Payments to Borrower's Engineers under Line Construction Engineering Service Contract

After the approval of an engineering service contract and after approval of the loan contract, borrowers should submit requisitions for funds in sufficient time to provide prompt payments as required for all services. Borrowers should note that payments in connection with final inventory documents are not to be made until the approval by REA of the final inventory documents of the project at which time a requisition for necessary funds is to be submitted. Borrowers are cautioned that interest at the rate of 6% per annum shall be paid to the engineer on all fees which are not paid within 30 days after payment for such fees is due and payable; hence, prompt payments according to the contract terms are essential.

Prior approval of the engineers' monthly invoices by the REA field engineer is not required but he will make every effort to review and approve them as soon as possible during the course of construction. All invoices submitted by engineers for payment shall be approved by an REA field engineer before final payment to the engineer is made.

Payments to Borrower's Engineers for Miscellaneous Engineering Services

After the approval of a contract providing for engineering services other than those in connection with line construction, a borrower may requisition sufficient funds to pay the engineer except for his final payment. Funds for final payment should be requisitioned in time to make such payment to the engineer upon the completion of his work and its approval by REA. The field engineer's approval, as outlined above, of the invoices is also required in connection with any such miscellaneous services furnished by the engineer.

Payments to Construction Contractors

After the approval of a contract for the construction of a project, the borrower should requisition funds periodically to provide for prompt payment as required by the contract up to 90 percent of the total amount of the materials and labor to be furnished by the contractor. Funds for the final 10 percent payment to the contractor will be advanced upon the approval of the final inventory documents by REA and upon receipt of a requisition in the appropriate amount.

In those instances where a borrower furnishes some of the materials necessary for construction of a project, under a labor and materials contract, the amount of a contractor's monthly payment is determined as follows:

1. The contractor shall determine at the end of the month the total cost of the assembly units installed during the month (based on assembly unit bid prices) and submit an itemized statement of the cost to the borrower's engineer for approval.
2. The borrower's engineer shall determine the total value of the materials installed during the month which were furnished by the borrower. This total is based on the prices of the material items listed in the contract as being furnished by the borrower.
3. The amount which the borrower shall pay the contractor for the month is then obtained by subtracting the total value of the materials installed which were furnished by the borrower and taking 90% of the resulting amount.
4. Since the construction contract makes no allowances for loss or breakage of materials furnished by the borrower, all monthly payments including the final monthly payment are determined in the above manner. The actual final payment to the contractor, which is payable only after approval of the final inventory by REA, is also subject to any necessary adjustment to balance the total of the monthly deductions for materials furnished the contractor by the borrower.

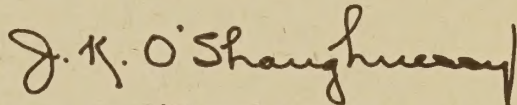
Normally, the contractor's monthly payments are based on 90% of the value of the assembly units completed during the month as approved by the engineer, and funds should be available to meet such payments.

Where the construction of a section of the Project has been completed, a contractor may request payment in full for the cost of the work completed in accordance with a final inventory for the section approved by the Administrator. Such payment is to be made within 30 days after REA approval of such final inventory, and funds should be requisitioned accordingly.

Borrowers will not be authorized by REA to make final payments to contractors and engineers until:

- (a) The construction has been inspected and the inventory approved by an REA field engineer,
- (b) An audit of construction expenditures has been completed by an REA field auditor, and
- (c) All final construction documents and a proper requisition for advance of final payment have been approved by REA.

This procedure is designed to allow prompt payments to contractors, engineers, and suppliers and places on contractors and engineers the responsibility for a careful final inspection, prompt correction of any faulty construction, and an accurate preparation of the final inventory and other final documents.


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